

Mr. John Schmitt  
Governor Bacon Health Center  
PO Box 559  
Delaware City, DE 19706

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX for June 30, 2006

Dear Mr. Schmitt,

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey), for the Governor Bacon Health Center (the Facility) for the year ended June 30, 2006, and issued our report thereon dated November 19, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

There were no deficiencies in internal control over financial reporting that we consider to be material weaknesses, nor were there any instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

However, during our audit, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Facility's internal control in our report dated November 19, 2008. This letter does not affect our report dated November 19, 2008 on the Facility's Cost Report and Survey.

Thomas John Shopa, CPA, CFP, CVA  
Charles H. Elter, CPA  
Robert S. Smith, CPA  
Ronald E. Derr, CPA  
George G. Fournaris, CPA, CGFM

■  
Donald S. Emenheiser, CPA, CFP, MBA  
Edward T. Gallagher, CPA, CIA  
Dana L. Ketterer, CPA  
Clyde G. Hartman, CPA/ABV, CFE, CVA  
Jean D. Lloyd, CPA  
Scott G. Sipple, Jr., CPA  
Alison L. Houck, CPA  
W. Mark Cullen, CPA  
Emilio I. Rana, Jr., CPA (PA)(CA)  
Kelly S. Klepacki, CPA

Members of:  
American Institute of CPA's  
Private Companies Practice Section  
Delaware Society of CPA's

Certified Public Accountants

270 Presidential Drive  
Wilmington, DE 19807  
(302) 656-5500  
(302) 656-8024 Fax

37212 Rehoboth Avenue Ext.  
Rehoboth Beach, DE 19971  
(302) 227-4872  
(302) 227-4873 Fax  
[www.mcbrideshopa.com](http://www.mcbrideshopa.com)

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#### CONDITION 06-01

- Condition: The Facility's Medicaid cost report is created primarily by using the Delaware Financial Management System (DFMS) expenditures reports and the add-on adjustments received from the Division of Management Services (DMS). The document utilized by the Facility to summarize this information into cost report format is the per diem (PD) report is difficult and time consuming to audit.
- Criteria: The Cost Report instructions state that the Cost Report should be supported by a trial balance and necessary schedules. This trial balance should provide a listing of revenue and expense accounts sorted and subtotaled by Medicaid line item on the Trial Balance of Costs (pages 2 & 3) and the Statement of Revenue (page 9). The trial balance used to prepare the Cost Report should be easily referenced to the books of original entry maintained by the Facility.
- Cause: The PD report does not provide line references to the cost report, but shows expenditures and adjustments based on DFMS codes only.
- Effect: During the audit process, the procedures needed to trace expenditures from the PD report to the cost report were very time consuming.
- Suggestion: Due to the complex and voluminous nature of DFMS and cost report preparation, and the differences that exist between them, we recommend that the Facility enhance its PD reporting model to provide a direct reference to cost report lines. This improvement will facilitate the cost report preparation, review and audit process significantly.

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#### CONDITION 06-02

- Condition: The Facility includes many adjustments to increase its allowable costs ("add-on costs") in the cost report using information supplied by DFMS. This information originates from the cost of various goods and services incurred by other divisions within the state's Department of Health and Social Services (DHSS), as well as statewide indirect cost allocations, which are deemed allocable to the Facility.
- Criteria: The Cost Report instructions state that allocations from related agencies or home offices should have adequate substantiation for such allocation. Also, all of the necessary information to verify the allocations must be available for audit within the State of Delaware by the Medicaid Agency or its designated representative.

- Cause: This appears to be caused by lack of formalized policy regarding the retention of this information.
- Effect: The information supporting these adjustments was not readily available at the Facility's business offices, whose personnel had limited knowledge of the basis for such adjustments, and required a significant amount of effort to locate through other personnel within DHSS.
- Suggestion: In order to adequately substantiate add-on costs, the Facility should maintain copies of documents (invoices, contracts, DMS calculations, etc.) on site. These documents will enable users of the DMS add-on calculations to better understand the basis for pass-through adjustments and to produce documentation more efficiently when requested.

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We would be pleased to discuss these comments and suggestions in further detail at your convenience.

*McBride, Shopa & Co*

Wilmington, Delaware  
November 19, 2008